



STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

MICHAEL R. DEVOS
EXECUTIVE DIRECTOR

MEMORANDUM March 18, 2008

TO: MSHDA OCD CDBG Rental Rehabilitation Grantees

FROM: Bill Parker, Interim Director, Housing Resource Fund

RE: Policy Changes for Downtown (and NPP) CDBG and MSHDA Funded Rental Rehabilitation Programs and Guidelines for Applying Changes Retroactively

The purpose of this memorandum is to inform you of OCD Policy changes for Downtown (and NPP) CDBG and MSHDA Rental Rehabilitation Programs and guidelines for applying these changes retroactively.

Background

MSHDA OCD has been promoting Downtown Rental Rehabilitation (DRR) Programs for the last 10 years. Our primary purpose in funding DRR has been to revitalize downtowns where disinvestment has been occurring over the past 40 years. MSHDA has funded several communities and many downtowns have been improved through this program. In addition to creating or improving housing units, there are many other benefits, with some listed below:

- People have moved downtown and personally benefited from living in a walkable community close to shops, parks, schools, churches, etc.
- Downtown property owners have benefited from the rental income generated from these units.
- Downtown retail and service businesses have benefited from the new residences and their guests who bring their business downtown.
- The City or Village has benefited from increased property values and taxes to help provide needed services to the entire community.

MSHDA and the communities funded have generally discovered that:

- Benefits from the program have been tremendous.
- The “affordability” of the units has not been an issue, in that: The “market rent” for the downtown units in most communities is not any more than the “fair market rent” as defined by HUD. Additionally, the household income for interested tenants tends to fall within the Low/Moderate income guidelines of HUD.

MSHDA OCD also recognizes the requirements for CDBG and MSHDA funds can be more flexible than what we have allowed in the past. Therefore, OCD has introduced changes we believe will make the Rental Rehabilitation Program more effective in downtown and NPP areas.



Past Policy

OCD's past policy for Downtown (and NPP) CDBG and MSHDA Rental Rehabilitation Programs has been as follows:

- 51% of the units in the project must be rented to persons at or below 80% AMI for five years.
- The rent charged for 51% of the units cannot exceed the HUD Section 8 "Fair Market Rent" for 5 years.
- A Mortgage and Note between the City/Village and the property owner will regulate the rental affordability requirements.
- Failure to comply by the landlord and/or Grantee could result in required repayment of part or all of the CDBG or MSHDA funds to MSHDA.

New Policy

For all OCD CDBG or MSHDA funded Downtown (or NPP) Rental Rehabilitation projects set up after **January 1, 2008**, the following less restrictive requirements apply: (unless it is determined by MSHDA and the local unit of government that the downtown area is a "high cost area" and it is in the best interest of the community to maintain the rent and income restrictions)

- The initial occupant of 51% of the units (1 of 1 unit, 1 of 2 units, 2 of 3, 3 of 4, 3 of 5, etc.) in the project must have income at or below 80% AMI.
- The rent charged to the initial occupant(s) of 51% of the units cannot exceed the HUD Section 8 "Fair Market Rent."
- The landlord may not economically displace the initial low/mod tenant(s). Therefore, any rent increase for those tenants after their first year of occupancy cannot exceed 10% of the previous year's rent.
- All units in the project must be maintained as residential rental property for a period of five years. Additionally, for five years, the units will be maintained up to local property standard or at a minimum HUD Housing Quality Standards (HQS) and marketed to the general public when vacancies occur. Tenants must be given a minimum a one year lease.
- Landlords must market (list) their units on the Michigan Housing Locator web-site (www.MichiganHousingLocator.com) for the five year lien period.
- A Mortgage and Note between the City/Village and the property owner will regulate the rental program requirements.
- Failure to comply by the landlord and/or Grantee could result in required repayment of part or all of the CDBG or MSHDA funds to MSHDA.

Applying the New Policy to Projects Set Up Prior to January 1, 2008

OCD Grantees can adopt MSHDA's new policy and apply it retroactively by following the steps outlined below:

1. Adopt the new policy by amending the Rental Rehabilitation Program Guidelines, including language that would apply it retroactively.
2. Have the City/Village Attorney approve Program Guidelines.
3. Have MSHDA CD Specialist review and approve Program Guidelines.

4. Change/create Note and Mortgage documents that reflect the new policy.
5. Create Mortgage/Note Amendments for existing liens (consult with City/Village attorney for legal issues), and offer to amend Mortgages and Notes for all past Rental Rehabilitation Program participants.
6. Send revised Mortgage/Note and Amendments model documents along with letter from local attorney acknowledging that documents conform to OCD's new DRR policy.

Maintaining More Stringent Program Guidelines

OCD Grantees may adopt more stringent Program Guidelines including maintaining the pre-2008 Downtown (and NPP) CDBG and MSHDA funded Rental Rehabilitation Programs policy. Please write to your CD Specialist explaining what Guidelines you will be implementing for your Rental Rehabilitation Program and include a copy of the Guidelines.

Hopefully, the flexibility we are allowing will help your Rental Rehabilitation Program be as successful as possible.

Please contact your CD specialist if you have any questions. You can also contact me at 517-373-1462 or parkerw@michigan.gov.